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GATEHOUSE FOUNDATION, INC.
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS

June 30, 2003

Under provisions of state law, this report is a public document. A copy of this report has been submitted to the entity and other appropriate public officials. This report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11-5-03

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INDEPENDENT AUDITORS' REPORT

MEMBER
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SOCIETY OF LOUISIANA CPAs

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To the Board of Directors
Gatehouse Foundation, Inc.
Lafayette, Louisiana

We have audited the accompanying statement of financial position of Gatehouse Foundation, Inc. (Gatehouse) (a not-for-profit corporation) as of June 30, 2003, and the related statements of activities, functional expenses, and cash flows for the year then ended. Those financial statements are the responsibility of Gatehouse's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of the Louisiana Governmental Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gatehouse as of June 30, 2003, and the changes in net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Gatehouse taken as a whole. The accompanying Schedule of Federal Awards for the year ended June 30, 2003 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in this schedule has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated September 25, 2003, on our consideration of Gatehouse's internal control over financial reporting and our test of compliance with certain provisions of laws, regulations, contracts, and grants.


Louis H. Rolfe II, CPA
Lafayette, Louisiana
September 25, 2003

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CERTIFICATION
DATE: 09/15/2003
CPA#: 0000000000

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Gatehouse Foundation, Inc.
Lafayette, Louisiana

We have audited the financial statements of Gatehouse Foundation, Inc. (Gatehouse) (a not-for-profit corporation) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 23, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of the Louisiana Governmental Audit Guide.

COMPLIANCE As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Gatehouse's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING In planning and performing our audit, we considered Gatehouse's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Although we noted no instances of noncompliance and no instances of material weakness in internal control, we noted inefficiencies regarding the overall management of Gatehouse which we felt were worthy of mention. These issues are discussed in a separate letter to management dated September 25, 2003.

This report is intended for the information of the Gatehouse Foundation Board of Directors, management, the Louisiana Department of Health and Hospitals, Office for Addictive Disorders as licensing agency for Gatehouse, the local Board of United Way of Acadiana, and the Community Development Department of Lafayette Consolidated Government. However, this report is a matter of public record, and its distribution is not limited.



Louis R. Rolles II, CPA
Lafayette, Louisiana
September 25, 2003

GATEHOUSE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2003

ASSETS

CURRENT ASSETS

Cash	\$ 657	
Prepaid expenses	1,065	
Grants/contracts receivable (Notes A & C)	<u>17,708</u>	
Total Current Assets		\$ 20,329

PROPERTY AND EQUIPMENT - AT COST

(Note A)		
Land	57,000	
Building	42,575	
Furniture and fixtures	33,122	
Equipment	33,681	
Building renovations	<u>21,738</u>	
	224,127	
Less: accumulated depreciation	<u>(112,188)</u>	
Net Property and Equipment		111,939

OTHER ASSETS

Deposits	<u>2,160</u>	
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TOTAL ASSETS		\$ 234,268
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The accompanying notes are an integral
part of this statement.

GATEHOUSE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2003

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	14,098
Accrued payroll taxes	2,884
Notes payable (Note D)	2,800
United Way payable	352
Contract advance	<u>1,085</u>

Total Current Liabilities	\$ 20,907
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LONG-TERM LIABILITIES

Long-term debt, net of current portion (Note E)	<u>5,000</u>
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Total Liabilities	25,907
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NET ASSETS (Note A)

Unrestricted		
Operating	(5,120)	
Plant	<u>103,452</u>	98,154
Temporarily restricted		<u>9,389</u>

Total net assets	<u>102,523</u>
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TOTAL LIABILITIES AND NET ASSETS	\$ 134,368
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The accompanying notes are an integral
part of this statement.

GATEHOUSE FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Revenue from State contract (Notes A, C, G)	\$ -	\$127,525	\$ 127,525
United Way of Academics (Notes A & C)	14,563	-	14,563
Lafayette Consolidated Government (Note C)	-	17,500	17,500
Client rents (Note D)	21,568	-	21,568
Fundraising/donations	1,139	-	1,139
Miscellaneous	<u>8,551</u>	<u>-</u>	<u>8,551</u>
Total public support and revenue	45,121	145,125	191,246
In-Kind: (Notes E & F)			
Dietician services	969	-	969
Counseling services	33,840	-	33,840
Medical services	1,505	-	1,505
Donated food/supplies	<u>3,973</u>	<u>-</u>	<u>3,973</u>
Total donated services	40,278	<u>-</u>	40,278
Total support and revenue	85,400	145,125	231,525
Expenses:			
Program services:			
Dietary & medical	27,598	-	27,598
Physical plant	25,753	-	25,753
Supervision	<u>145,935</u>	<u>-</u>	<u>145,935</u>
Total program services	199,278	<u>-</u>	199,278
Supporting services:			
Management and general	50,733	-	50,733
Fundraising	<u>44</u>	<u>-</u>	<u>44</u>
Total supporting services	50,758	<u>-</u>	50,758
Total expenses	250,047	<u>-</u>	250,047
Net assets released from restrictions	169,725	(169,725)	-
Change in net assets	(2,822)	(18,605)	(18,822)
Net assets, beginning of year	111,575	24,985	136,561
Prior period adjustment (Note I)	<u>(13,533)</u>	<u>-</u>	<u>(13,533)</u>
Net assets, end of year	\$ 88,156	\$ 6,380	\$ 162,536

The accompanying notes are an integral
part of this statement.

GATEHOUSE FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2003

	Program Services	Management and General	Total
Bank charges	-	379	379
Benefit functions	7	-	7
Client programs	884	-	884
Contract labor, including donated	50,364	-	50,364
Depreciation (Note A)	8,232	-	8,232
Dietary contract, including donated	1,890	-	1,890
Food	22,350	-	22,350
Fundraising expense	-	44	44
Insurance - general	8,679	1,679	10,349
Insurance - medical	-	-	-
Interest	-	991	991
Legal, accounting & auditing	-	3,500	3,500
Medical contract, including donated	3,380	-	3,380
Miscellaneous	-	87	87
Office supplies	-	1,309	1,309
Payroll taxes	6,371	2,731	9,102
Permits and licenses	-	680	680
Postage	-	245	245
Repairs and maintenance	3,380	-	3,380
Salaries	74,727	22,826	106,753
Supplies	3,343	3,343	6,686
Telephone	-	3,785	3,785
Training - in service	1,400	-	1,400
Travel	189	-	189
Utilities	24,181	-	24,181
	<u>\$ 199,278</u>	<u>\$ 58,789</u>	<u>\$ 258,067</u>

The accompanying notes are an integral
part of this statement.

GATEHOUSE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets - (decrease)		(5 18,522)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	\$ 5,322	
(Increase) in prepaid expenses/advances	(1,968)	
Decrease in grants/contracts receivable	15,053	
Decrease in pledges receivable	587	
Increase in accounts payable	14,099	
Increase in United Way payable	195	
(Decrease) in accrued payroll taxes/expenses	(5,997)	
(Decrease) in garnishments payable	(5,238)	
Total adjustments		<u>23,953</u>
Net cash provided by operating activities		7,537

CASH FLOWS FROM INVESTING ACTIVITIES

Additions to property and equipment	<u>(5,091)</u>	
Net cash (used) by investing activities		(5,091)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds on line of credit debt	10,000	
Payment on line of credit debt	<u>(8,875)</u>	
Net cash provided by financing activities		3,925
Prior period adjustment (Note 1)		(10,000)
Net decrease in cash		(4,139)
Cash at June 30, 2002		<u>4,768</u>
Cash at June 30, 2003		\$ <u>652</u>

Supplemental disclosure:

Interest paid amounted to \$951

The accompanying notes are an integral
part of this statement.

GATEHOUSE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note A - Nature of Activities and Summary of Significant Accounting Policies

Nature of activities

Gatehouse Foundation, Inc. operates a private, non-profit, residential (fifteen beds), educational and rehabilitation program for persons recovering from alcoholism and other chemical dependencies. The halfway house facility provides extended care to chemically dependent males and females in a supervised living environment. The purpose of the program is to assist the resident in developing a healthy transition back into the community via counseling and therapeutic support. As provider, Gatehouse must allow a sliding fee scale policy, and must not refuse services to persons on account of race, religion, sex or ability to pay. The primary source of funding for this program is a contract with the State of Louisiana, Department of Health and Hospitals, Office of Human Services, Division of Alcohol and Drug Abuse, through a Federal Block Grant. Gatehouse is licensed by the Louisiana Department of Health and Hospitals. Under this license, Gatehouse agrees to provide room and board, individual and group counseling and peer support in a structured therapeutic environment.

Financial Statement Presentation

Effective for fiscal year ended June 30, 1993, Gatehouse began the application of the new accounting standards as prescribed by SFAS 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, Gatehouse is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, Gatehouse is required to present a statement of cash flows. As permitted by this new statement, Gatehouse has altered its use of fund accounting (for reporting purposes) and has, accordingly, reclassified its financial statements to present the three classes of net assets required.

Gatehouse has only unrestricted and temporarily restricted classes. The reclassification had no effect on the change in net assets for the fiscal year ended June 30, 2003.

Continued

Contributions

Effective for fiscal year ended June 30, 1996, Gatehouse began the application of the new accounting standards as prescribed by SFAS 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under SFAS 116, such contributions are now required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration or expenditures of the funds. In effect, the recognition of this as support occurs at the receipt of the award, regardless of when the money is spent.

Deferred Revenue – Grants and Exchange Transactions

Some grants are actually "exchange transactions" that do not qualify as contributions under SFAS 116. In such cases, revenue is not recognized until the services required by the grant are rendered. Until the revenue is recognized, any cash or grant receivable asset must be offset by a "deferred or unearned revenue" liability. These exchange transactions differ from contributions in that the method or type of services rendered is stipulated by the granting authority and not by the nonprofit organization.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Compensated absences / Postemployment benefits

Under SFAS 43 and 112, an employer generally is required to accrue a liability for employees' rights to receive compensation for future absences and postemployment benefits. The amount of the compensation is not reasonably estimable and, therefore, no such liability has been accrued. However, any unrecorded amounts at June 30, 2003 would be immaterial.

Functional expenses

Expenses are charged to one of three program services based on direct expenditures incurred. Any expenditures not directly chargeable are allocated to the respective programs based on related salary expenses, time sheets, or other appropriate method that is reasonable and measurable. The statement of functional expenses lists both program service expenses and management expenses by natural classifications.

Continued

Income tax status

The organization qualifies as a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes.

Property and equipment

Property and equipment purchased is recorded at cost; the fair market value of donated assets is similarly capitalized and the donation recorded as restricted or unrestricted support. Depreciation is computed on the straight-line method over the estimated useful lives of the individual assets, ranging from five to twenty years.

Grants and contract revenue

Grants and contract revenue received that are of a cost reimbursement nature are recognized as revenue at the time the cost is incurred for the purpose for which the revenue was billed. Unreceived amounts from previously awarded grants are recorded as grants receivable. Unrestricted grants, such as United Way, are recognized as revenue when awarded.

Accrual Basis of Accounting

The books are routinely maintained on a cash basis and are converted to the accrual basis at year-end for these financial statements. Accrual basis accounting records revenue when earned rather than when received and records expenses when incurred rather than when paid, in accordance with U.S. generally accepted accounting principles.

Cash Equivalents

For purposes of the statement of cash flows, Galahouse considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Note D - Note Payable - Iberia Bank

The Board of Directors approved a \$50,000 line of credit from Iberia Bank in January, 2002, for renovations of the women's house. The original loan was paid in full. The balance at June 30, 2003 is \$8,490.12, in a \$10,000 draw made in December 2002.

Continued

Note C - Federal, State and Local Financial Assistance and Grant Awards

<u>Grant/Program Title</u>	<u>Amount Earned Y/E June 30, 2003</u>
State of Louisiana, Department of Health and Hospitals, Office for Addictive Disorders (through a Federal Block Grant) CDTA #60-959	\$127,825
Consolidated Government of Lafayette ESO Grant (2 grants)	17,500
Total governmental funding:	<u>\$145,325</u>
United Way of Acadiana	\$ 18,081

The aforementioned contract with the State of Louisiana is operated on a per diem reimbursement basis. The 2002-2003 contract was renewed for 2003-2004 for a maximum reimbursement of \$128,100, effective July 1, 2003. This represents a per diem of \$25 for 14 beds.

The aforementioned grants from the United Way of Acadiana and the Consolidated Government can be used for operational expenses.

The following is a breakdown of Grants/Contracts Receivable:

State Contract	\$10,450
United Way Grant	7,550
Total Grants/Contracts Receivable	<u>\$18,000</u>

Note D - Client Rent

The organization, as part of their recovery program for the residents as well as a source of income, charges and collects rent on a weekly, sliding scale basis. Rental revenue of \$21,500 reflected in the financial statements is recorded on the cash basis. Because rent is collected and recorded weekly, any adjustment to the accrual basis is deemed immaterial.

Note E - Donated Materials, Food, & Supplies

Donated materials, food, and supplies are reflected as In-kind Donations in the accompanying statements at their fair market value. For the year ended June 30 2003, food donations were valued at \$1,860 and office, bathroom, and kitchen supplies were valued at \$2,096.

Continued

Note F - Contributed Services (In-Kind)

Effective for the fiscal year ended June 30, 1998, Gatehouse began the application of the new accounting standards as prescribed by SFAS 116 and 117. Accordingly, contributed services of volunteers shall only be recognized in the statement of activities if the services received:

- a) Create or enhance non-financial assets (land, buildings, etc.); or,
- b) Require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations.

Dietician services totaling \$968, counseling services totaling \$29,843, and medical services totaling \$1,508 contributed during the year are reflected in the accompanying financial statements.

Note G - Concentrations

Approximately 88% of Gatehouse's support was provided by revenue from the state contract with the Louisiana Department of Health & Hospitals (OAH). The new contract for 2003-2004 has been approved for \$128,100 (14 beds), and the DHH license has been renewed.

Note H - Subsequent Events

Subsequent to the balance sheet date, the state authorized a contract for \$128,100. This represents a per-diem rate of \$25 for 14 beds authorized. The actual amount realized from the contract will be determined by occupancy during the contract year. Additionally, the Lafayette Consolidated Government has awarded \$29,500 in HJVEFG and ESO Entitlement funds for the July 1, 2003 - June 30, 2004 program year. This is an increase of \$12,000.

Note I - Prior Period Adjustment

The June 2002 monthly claim of \$10,500 was reduced by OAH because Gatehouse received an equivalent amount of Drug Court funds. As of June 30, 2002, Gatehouse had recorded both the Drug Court funds and the State Contract funds as grants receivable. This year's prior period adjustment is to correct the June 30, 2002 overstatement of both grant revenue and grants receivable by \$10,500.

Continued

GATEHOUSE FOUNDATION, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED 06-30-83

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Award</u>	<u>Federal Disbursements</u>
U.S. Department of H.U.D./ Emergency Shelter Grants(2) (A)	14.231	\$ 17,500	\$ 17,500
U.S. Department of Health & Human Services (B)	93.068	\$127,750	\$127,625
Total		\$145,250	\$145,125

(A) Through Lafayette Consolidated Government

(B) Through Louisiana Department of Health and Hospitals, Office of Addictive Disorders.

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GATEHOUSE FOUNDATION, INC.

Management Letter and Management's Corrective Action Plan

June 30, 2003

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September 25, 2003

To the Board of Directors
Gatehouse Foundation, Inc.
Lafayette, Louisiana

We have audited the financial statements of Gatehouse Foundation, Inc. (Gatehouse) as of and for the year ended June 30, 2003, and have issued our reports thereon dated September 25, 2003.

In planning and performing our audit of the financial statements of Gatehouse for the year ended June 30, 2003, we considered their internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Gatehouse is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

Our audit did not reveal any matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted certain other matters that would not be considered reportable conditions under standards established by the American Institute of Certified Public Accountants, and we would like to submit the following management letter comments for your review. These management letter comments are generally less serious in nature than reportable conditions but nonetheless important. Our audit disclosed the conditions set out in this report. This report is intended solely for the use of management and the audit committee of the Board, the Louisiana Department of Health and Hospitals, and the Louisiana Legislative Auditor and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Gatehouse management, and we expect that these suggestions will be implemented. Additionally, management is required to address all comments contained in this report and issue a corrective action plan. A reporting package that does not include management's corrective action plan will be considered incomplete by the Legislative Audit Advisory Council.

CLIENT RENT PAYMENTS

We again noted that there needs to be better controls over client rent payments being collected. Most clients pay in cash and there have been several occasions where money (approximately \$800 total) has been missing from the rent collected before it gets deposited. Since most clients (residents) are paid on Friday, rent was frequently being remitted in the form of cash over the weekend, and there was inadequate supervision over the cash being collected. Management has installed a lockbox and encourages the clients to pay rent during normal office hours. However, the use of prenumbered receipts is inconsistent. We suggest that a receipt be issued (one prenumbered receipt book should be used) for all cash receipts and possibly attach a copy of the receipt to the cash being collected before it is placed in the lockbox. The executive administrator would then be able to reconcile the receipts issued to the amount of cash in the lockbox, and also account for an unbroken sequence of receipt ticket numbers. We also suggest that client rent be deposited on a weekly basis to help increase cash flow and reduce the amount of cash on hand. Client rent represents 11% of total revenue and should be safeguarded and accurately recorded.

BUDGET

The Board and Management need to prepare, approve and periodically monitor an entity-wide operating budget. While individual grant budgets are prepared, there has been no monthly or quarterly review of an overall operating budget by the Board. Capital expenditures are so infrequent that these could be handled on an as-needed basis. The executive administrator is currently working with the Treasurer of the Board and the CPA on a budget for fiscal year 2003-2004. No budget was prepared for the current fiscal year.

PAYROLL FILES

During our audit of payroll compliance, we noted that the personnel files lacked a great deal of required information. There are three files kept on each employee -- a personnel file, a training file, and a medical file. The personnel file should contain an employment application or resume, a Form W-4 for payroll withholding, salary information, annual performance evaluations, and a criminal background check (required by OAGD). Some improvement was noted in the contents of the three personnel files reviewed. However, we suggested condensing the three personnel files on each employee into one personnel file for each employee. This would reduce the number of files kept on each employee thereby reducing the risk of losing paperwork and eliminating some of the clutter involved in keeping three separate files on each employee.

Status of Prior Year Management Letter Comments:

INSURANCE COVERAGE

Comment: General and professional liability and property insurance had lapsed for lack of payment from October 2001 to August 2002.

Status: Obtained \$1,000,000/\$2,000,000 commercial liability coverage and approximately \$250,000 building and contents coverage on 9/5/02. Obtained \$100,000/\$500,000 workers' compensation coverage on 9/16/02. Also obtained \$1,000,000/\$2,000,000 professional liability coverage, and an errors and omissions policy for directors, officers, and trustees (\$1,000,000 coverage). All premiums are being paid on time.

TERMINATION OF EXECUTIVE DIRECTOR

Comment: The executive director was terminated in August 2002.

Status: In place of an executive director, management was restructured to promote the administrative assistant to the position of executive administrator, and the chief licensed counselor to the position of executive counselor. This was approved by the State Licensing authorities in the Department of Health and Hospitals, Office of Addictive Disorders (OAD). The new structure appears to be working well.

PAID INVOICES

Comment: The system for filing paid invoices needs to be completely overhauled.

Status: Management is now filing paid invoices by the month in which the invoice was paid. Within each folder, the paid invoices are arranged alphabetically by vendor. Each invoice is marked "paid" and includes the date paid and check number.

PETTY CASH

Comment: A check in the amount of \$100.00 was being written to replenish petty cash once a month without regard as to the amount of receipts in petty cash.

Status: The petty cash fund was re-established under the direction of the auditors. Petty cash is replenished for only the total of receipts in the box. Management now understands the process for replenishing the petty cash fund.

Gatehouse Foundation, Inc.
September 25, 2003
Page 3

OVERALL ADMINISTRATION

Comment: We did not receive the signed engagement letter for last fiscal year from the executive director until August 5, 2002 – over one month after the end of the fiscal year. United Way contributions withheld from employees' checks had not been remitted in over a year. The executive director failed to deposit fundraising contributions on a timely basis.

Status: The executive director was fired and management was restructured. The executive administrator has requested the United Way contributions due each month from the CPA so that these contributions can be remitted in a more timely manner.

BOARD OVERSIGHT

Comment: There was a four-month gap (August – December 2002) between meetings of the Board.

Status: Board meets at least every other month. One board member visits Gatehouse offices every 7-10 days to oversee operations and ask questions. Board has requested to be copied with any contract, deficiency-related correspondence from the DAD regional administrator. Board reviews site visit and quality assurance documentation quarterly.

CONCLUSION

We feel that Gatehouse would benefit from the implementation of the aforementioned recommendations. Often when such changes are made, circumstances dictate that the recommendations be modified to accommodate such circumstances. It is important to remember that grantors also have the right to audit your books and your system of internal controls to ensure that their grant award is being properly used in an environment which has good administrative and accounting controls. Good controls cannot eliminate errors or fraud, but they can go a long way in minimizing the chances that errors or fraud go undetected.

We will be happy to assist you in the implementation of any of the recommendations we've outlined in this letter. Please let us know if we can be of any help in this regard. If any such implementation involved fees we would discuss such with you in advance and give you a written fee estimate.



Louis R. Raikes II, CPA
Lafayette, Louisiana
September 25, 2003



Gatchouse Foundation, Inc.

P.O. Box 98768

Lafayette, Louisiana 70507

(337) 233-8833

September 30, 2003

Louis R. Rolles II, CPA
900 South College Road, Suite 200-A
P.O. Box 52266
Lafayette, LA 70505-2266

Subject: MANAGEMENT LETTER CORRECTIVE ACTION PLAN

Dear Mr. Rolles:

In response to your recent Audit Management Letter, here is our written response and statement of intention to implement the following plan of correction:

1. **PERSONNEL FILES**

Personnel folder filing system will be changed from 3 files per employee to 1 file per employee. Each personnel file will have divided sections within the main file, labeled to accommodate facility needs and licensing requirements, which are:

- Application/resume/background check results
- Tax records/payroll information
- Medical clearance/drug screen/TB results
- Training documentation (ongoing)
- Personnel evaluations.

Revised personnel file system will be established by November 2003.

2. RENT RECEIPT

Effective October 1, 2003, receipt books with prenumbered triplicate carbon receipts will be used for documentation of all collected client rent. The following documentation system will be utilized for the receipt copies:

- + WHITE COPY - CLIENT
- + YELLOW COPY - CLIPPED TO COLLECTED MONIES AND DEPOSITED INTO SAFE/DROP BOX
- + PINK COPY STAYS IN BOOK AS PERMANENT RECORD AND FOR RECONCILIATION AT TIME OF DEPOSIT.

Additionally, an in-house monthly log of all client rent taken will be established. The log will list, on a monthly basis, all rental payments taken, arranged by client #/name with the date and amount of rent taken. Individual entries will be made to this binder on a weekly basis at the time of weekly rent reconciliation and deposit.

At month's end, the sheet will be totaled, reflecting a) total rent collected per client, and b) grand total of client rent collected for that month. This figure should reconcile with total rental deposit slips made for that month, as well as the total rent collected for the month according to the carbon rental receipt book. Additionally, at the end of the fiscal year, the total of the log's monthly sheets should match the client rental income total reflected in the CPA's year-end financials.

Rental payments for the week will be deposited each Friday. This system will be utilized effective October 1, 2003.

3. BUDGET

Entity-wide budget development is in process and near completion. Administrator and Treasurer of Board of Directors have input FY 02-03 monthly financials from CPA into in-house budget format, breaking down CPA general categories into ones that the Administrator can more easily code to. Administrator and Treasurer have compiled projected FY 03-04 budget using their categories, and are finalizing budget as of this date, for presentation at next board meeting, and scheduled approval for November 2003.

CONCLUSION

New administration has completed 1st year of administration since last audit. While significant improvement has occurred since our last submitted plan of correction, this current plan of correction addresses noted lingering areas that can be improved for more efficiency and better accounting controls.

Respectfully,

A handwritten signature in cursive script, reading "Carla S. Fertain, B.S.", written in dark ink.

Carla S. Fertain, B.S.
Administrative Director